


City of Alexandria, Virginia

MEMORANDUM

DATE: JULY 1, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER 

SUBJECT: APPROVED FY 2004 OPERATING BUDGET AND
APPROVED FY 2004-FY 2009 CAPITAL IMPROVEMENT PROGRAM

Introduction

I am pleased to present the City of Alexandria's approved FY 2004 Operating Budget and the approved FY 2004-FY 2009 Capital Improvement Program (CIP).

The approved All Funds Operating Budget totals \$479.2 million, which is an increase of \$24.9 million, or 5.5 %, over the FY 2003 All Funds Budget.

The approved FY 2004 General Fund Operating Budget totals \$397.7 million, which is an increase of \$23.8 million, or 6.4%, over the FY 2003 General Fund Budget.

The approved FY 2004-FY 2009 CIP totals \$340.1 million (net City share), which is an increase of \$156.3 million, or 85%, over the FY 2003-FY 2008 CIP.

In many ways, this has been a year unlike other budget years. Both the General Fund Operating Budget and the CIP are the product of the balancing of a wide range of important, often-competing factors, some of which we have not seen in previous years. These include:

- The need to reduce the real estate tax burden, particularly as it falls on the residential community, as a result of the significant rise in 2003 assessments.
- The reductions in the amount of Virginia aid which the City has experienced in FY 2002 and 2003, the additional reductions we will incur in FY 2004, and the fact that further reductions and increases in unfunded mandates are likely in future years.
- The reductions in non-property-tax revenues, including, in particular, earnings on City investments (down \$3.3 million from FY 2002 due to low market interest rates for investment), intergovernmental revenue (down \$1.5 million from FY

2002), recordation fees (down \$0.6 million from the mortgage refinancing driven FY 2002 levels), and \$0.7 million in lower telecommunications taxes.

- Increasing needs in the public safety area, in light of the City's rising residential and work populations and, more importantly, the City's proximity to the nation's capital and the corresponding potential threat to public safety and security.
- Continued support of the Schools' operating and capital budgets, in order to continue the progress toward a fully accredited school system.
- The need to remain competitive in the area of employee compensation and benefits, and, of at least equal importance, the need to recognize members of the City's workforce for the outstanding work they do.
- The emergence of two very significant capital funding requirements that the City must, unfortunately, face in the near-term time frame: the construction of a new T.C. Williams High School, and the construction of a new police department facility because the current facility is inadequate.
- The need to maintain compliance with all of the City's financial ratios and policies which have enabled us to retain AAA/Aaa bond ratings since 1992.
- Continuation of important program and service enhancements made over the past few years in a number of operational and regulatory areas.

Notwithstanding their increases, the approved operating and CIP budgets fall short of addressing current and future City needs.

In the public safety area, we face the documented need, with the City's rising populations, to increase our law enforcement personnel. Last year, nine officers were added to the police department. This year, unfunded supplemental requests in the area of public safety include requests for five additional officers in the police department; and four additional EMS supervisors, so that two, rather than one, supervisors are on duty in the City at all times. The Sheriff's request for additional staff and equipment, resources that, the Sheriff feels, are required to enable his staff to assist the Police Department in emergency situations, was also not funded in this budget. These non-funded public safety supplemental requests total approximately \$1 million.

Outside the public safety area, some \$0.8 million in supplemental requests from other departments have not been funded.

In the capital area, a number of significant needs are not addressed in the approved six-year CIP. These include:

- Construction of a new DASH facility and the acquisition of additional buses.
- Increased required City contributions, starting in FY 2006, to WMATA for its CIP programs.
- Infrastructure improvements in the Arlandria area, pursuant to the Upper Potomac West Small Area Plan.
- Infrastructure improvements in the Eisenhower-East area (estimated over \$60 million), pursuant to the plan for Eisenhower East, beyond the \$18.0 million in State urban funds and \$0.4 million in local funds included in the approved CIP.
- Construction of a ninth fire station.
- Replacement of voting equipment that is currently in use.
- Acquisition or long term lease of the Department of Human Services facility on Mt. Vernon Avenue, or a replacement facility.
- Substantial upgrades to the City's swimming pools.
- Flood control measures on lower King Street.
- Full funding of various capital improvement projects at the City's historical and museum sites.
- Full funding of park renovations and replacement of athletic field lighting.

Approved FY 2004
General Fund Operating Budget

Overview

The approved FY 2004 General Fund Operating Budget totals \$397.7 million, as follows:

- Schools. \$121.2 million, or 30.5%, is for operations of the Alexandria City Public Schools.
- City. \$237.4 million, or 59.7%, is for operations of City departments and agencies, including funding for the courts, court clerks, commonwealth attorney's office and registrar of voters, and transit contributions to WMATA and DASH.
- Capital funding. \$38.3 million, or 9.6%, is for debt service and cash capital to finance City and Schools CIP projects.

- Contingency reserve. \$0.925 million, or 0.2%, is set aside in reserve for contingencies arising during the fiscal year.

Projected FY 2004 Revenues

FY 2004 General Fund revenues are projected at \$390.2 million, which represents a 7.3% increase from the FY 2003 budget. To supplement these revenues, in order to balance the approved budget, \$6.0 million is planned to be appropriated from Fund Balance, and \$0.6 million from the recycling fund balance. Also \$1.0 million in fund balance from one cent of the June 2003 (FY 2003) real estate tax payment will help finance open space acquisition in FY 2004. These sources combine to total \$397.7 million, which is equal to the approved operating budget expenditures.

The projected General Fund revenue of \$390.2 million is \$18.3 million more than the final FY 2003 revenue projection. Of this increase, \$15.4 million, or nearly all of the revenue increase, is derived from increased real estate taxes. Other local tax (i.e., non-real property tax) revenue is projected to increase by only \$3.0 million, and is offset by a projected decrease of \$0.1 million in non-tax revenue. Thus, the projected increase in real estate taxes, of \$15.4 million, makes up almost all of the increase in revenue that is projected for FY 2004 and, as a result, funds nearly all the expenditure increases.

This \$15.4 million increase reflects an approved four and one half cent reduction in the City's real estate tax rate, from \$1.08 to \$1.035 per \$100 assessed value. One cent of the \$1.035 will be allocated to the Capital Improvement Program (CIP) and will be dedicated to the acquisition and preservation of open space. One cent of the tax rate applied to the current tax base in FY 2004 equals \$1,952,000. The four and one half cent rate reduction translates into an \$8.8 million revenue reduction in FY 2004, and a \$4.3 million reduction in the second half of FY 2003 (since the reduced rate would apply to the real estate tax payment due on June 15). In total, the reduction provides \$13.1 million in tax relief to property owners, to help address the rising assessments. In addition, \$0.4 million in additional tax relief funds have been set aside to expand tax relief to senior citizens and the disabled. Over the next six years, an estimated \$13.9 million of real estate tax revenue, from one cent of the City's current \$1.035 real property tax rate, will finance the Open Space Fund for the acquisition of open space in the City.

While this reduction in the real estate rate to \$1.035 will produce some relief for homeowners, annual taxes on the average residential home in the City (\$308,876) will still increase by 19.3%, or approximately \$517. The 2003 assessment increase on the average residential home is 24.5%; thus, the three-cent rate reduction will reduce this increase by about \$139 per year.¹

¹ For the average single-family home, the four and one half-cent rate reduction will result in a tax increase of 16.9%, or \$613; the average assessed value of a single-family home is \$409,613, an increase of 22% from 2002. For the average condominium, the four and one half-cent reduction will result in a tax increase of 25.5%, or \$373; the average assessed value of a condominium is \$177,079, an increase of 31% from 2002.

Of the \$15.4 million projected increase in real estate taxes (with the four and one half-cent rate reduction), taxes on residential property will contribute 57.7%, taxes on commercial property (including apartments) 38.8%, and taxes on public service corporation 3.5%. Corresponding figures in FY 2003 were 55.1% for residential, 40.8% for commercial, and 4.1% for public service corporation properties.

As discussed below, approved expenditures for FY 2004 total \$397.7 million, or \$7.5 million above the projected revenues of \$390.2 million. To cover this shortfall, \$6 million are planned to be appropriated from Fund Balance, together with \$.6 million from a special fund devoted to recycling activities.² \$2.4 million of the \$6.0 million Fund Balance appropriation stems from projected FY 2003 planned underspending by City departments. This is the result of the saving contingency plans that were instituted in the fall of 2002. Also \$1.0 million in fund balance from one cent of the June 2003 (FY 2003) real estate tax payment will help finance open space acquisition in FY 2004.

Approved Expenditures

The approved FY 2004 General Fund budget contains expenditures \$397.7 million, a \$23.8 million, or 6.4%, increase over the FY 2003 operating budget. This \$23.8 million expenditure increase breaks down as follows:

- Schools. \$5.9 million increase in School expenditures.
- Capital. \$6.3 million increase in capital expenditures (debt service and cash capital).
- City. \$11.6 million increase in general City operating expenditures.

The \$11.6 million increase in City expenditures breaks down as follows:

- Compensation and benefits. \$8.3 million in compensation increases (merit increases, a 2.0% COLA, increases in health and life insurance premiums, an increased contribution to the City's supplemental retirement program to address underfunding, and increased transit benefits).
- Transit. \$0.6 million in increased City support of WMATA and DASH operations.
- Police leased space. \$1.1 million for off-site police lease costs during the department's transition to a new facility.

² As of FY 2003, the Recycling Fund, formerly maintained as a separate fund, and its expenditures, revenues and fund balance, were folded into the General Fund.

- Residential care: \$0.5 million increase in juvenile detention costs, and community services and residential programs.
- Supplementals and City Council Additions and Deletions. \$1.7 million in funded supplemental departmental requests (described below), offset by \$0.5 million in City Council and deletions.
- Non-personnel costs: City non-personnel costs have not increased from FY 2003, and have been held flat or have decreased, in nearly all City departments and agencies.

State revenues. It is important to note the impact of Virginia aid reductions on the approved FY 2004 budget. These aid reductions are comprised of direct cutbacks in specific programs, and the stagnation of State aid for programs where the City and the State have historically shared funding. The cost of State revenue reductions to the City and Schools for FY 2004 is estimated to be approximately \$2.3 million. Many of these reductions started in FY 2002, continued or increased in FY 2003, and will continue in FY 2004. The City has lost State aid in the areas of law enforcement, criminal prosecution, tax collection, mental retardation and mental illness, and adult and youth correctional services. We have reduced spending in some of these areas. However, in most of the areas where the State has reduced its historical funding commitment, the City has needed to, and in many cases has been obligated to, continue delivering core services to the Alexandria community. Also to be noted is that the State has increased its unfunded mandates, at the same time it has been reducing aid to localities, forcing the City to provide local funding for new and unfunded State requirements.

Service delivery improvements. In the last two years, as State aid has diminished and the pressure on the residential taxpayer has increased, we have acted to conserve resources and to increase the productivity and efficiency of the City government, while at the same time improving the quality and responsiveness of services.

In both FY 2003 and FY 2004, departments were required to institute savings plans and to turn back a portion of their already approved budgets. By the close of FY 2003, it is estimated that this two-year effort will have saved over \$5.4 million. In addition, investment in technology has enabled the City to greatly improve the productivity of the City workforce – from police officers who have cutting edge wireless laptop computer technology in their police cruisers, to land use planners who have three-dimensional GIS information at their fingertips, to our citizens and businesses who can review their assessments and recent neighborhood sales on-line. We have just implemented, in the last few months, an on-line permit status checking system for building contractors.

Over the last few years, many City departments have made significant strides in improving existing City delivery systems and outcomes. Examples include: a new preventive maintenance program for City vehicles which has reduced down-time and increased vehicle reliability; the decline in response times for emergency medical services; the decrease in Part I crimes over six

of the past seven years; the more aggressive collection of back taxes and fees (including environmental fines) which has produced over \$2 million to date; the reduction by 50% of overtime usage in recreation and parks due to better scheduling and planning of staff resource deployment; the reduction from three months to one month in the time to respond to citizens' tree maintenance requests; the increase in the number of departments seeking to obtain or maintain "best practice"-requiring professional accreditation; the streamlining and redefining of our purchasing processes which have resulted in significant procurement savings; the provision of pre-tax flexible health, child care and transit programs for our employees; the institution of cost containment policies (such as substantially higher co-pays for prescriptions) which have reduced the rise in health insurance premiums; and last month the purchase of our first fuel efficient electric/gasoline powered hybrid vehicles. These are a few of many improvements to City services and efficiencies that have been instituted over the last few years.

Expenditure highlights are as follows:

In order to provide additional tax relief from rising property assessments beyond the three-cent reduction proposed by the City Manager, City Council approved a \$1.5 million reduction to City government's General Fund Operating and Capital Improvement Program budgets, to be allocated by the City Manager and ratified by City Council.

Alexandria City Public Schools. The approved budget provides \$119.0 million to fund the School Board's submitted operating budget request of \$119.9 million, as well as a 2.0 percent COLA for all Schools employees (\$2.16 million), bringing the total Schools operating budget to \$121.2 million. This represents a \$5.9 million, or 5.1% increase over the Schools FY 2003 operating budget. City Council's approved reduction of \$0.9 million, as part of the across the board cuts to fund the tax rate reduction, will be offset by an additional \$0.67 million in State Aid, resulting in a net decrease in the ACPS budget of \$0.23 million.

Of the \$5.9 million increase in Schools funding, approximately \$2.0 million arises from a transition that the School Board wishes to make to a new teacher compensation program, and that funds teacher compensation costs beyond merit increases and a cost of living adjustment. More specifically, approximately \$850,000 is budgeted to expand the number of teacher work days from 190 to 192 (and the number of instructional days from 180 to 183), and an additional \$1.2 million is provided to transition teachers from the multiple teacher salary schedules that now exist to a single new schedule, containing six additional steps, and to make available a new stipend program that will pay a differential of \$9,000 to teachers with Master's degrees.

Cash capital and debt service. The approved budget substantially expands the expenditures for debt service and cash capital, by \$6.3 million over the FY 2003 budget (and by \$10.0 million over the FY 2002 budget. This continued increase in the operating budget's capital funding raises from the significant expansion of the CIP, as discussed below, and the intention to fund a substantial part of our annual capital costs through cash capital. As part of City Council's \$1.5 million reduction to the General Fund, cash capital was reduced by \$0.6 million. This reduction was offset by the dedication of \$2.9 million to fund the acquisition of open space through the FY

2004 -FY 2009 Capital Improvement Program, including \$1,952,000 from the one cent dedicated from FY 2004 real estate tax payments and \$953,000 from the one cent designated from the June 2003 real estate tax payments to fund the acquisition of open space through the FY 2004 - 2009 Capital Improvement Program.

City compensation and benefits. The approved budget contains \$8.0 million for increased compensation and benefits for City employees. Included in this sum is:

- Merit increases. \$3.0 million is for merit increases to City employees.
- COLA. \$3.44 million is for a 2.0% cost of living adjustment. This is less than the rate of inflation between January 2002 to January 2003 in the Washington, D.C.- Baltimore area, which was 3.3%, and were less than or equal to the COLAs given by other metropolitan area localities. However, projected revenues and the need to provide tax relief from rising assessments for FY 2004 made it impossible to fund a COLA higher than 2.0%.
- Insurance premiums. \$1.15 million is for increases in employee health and life insurance premium costs. The City's health insurance premium increases are expected to be below 10%, which will be less than the national trend of double digit increases, and stems, in part, from the cost containment measures instituted over the last few years.
- Retirement contribution. \$0.5 million is for an increased contribution to the City's supplemental retirement plan for general employees to begin to address this plan's underfunding.

Transit costs. The City's contribution to WMATA, to support bus and rail operations, will increase by \$0.3 million in FY 2004, and our contribution to support DASH operations will increase \$0.3 million, for a total of \$0.6 million.

Police lease costs. The approved CIP includes the construction of a new police facility to be completed in 2010. Pending completion of the new facility, approximately 56,000 square feet of off-site space is needed to house police operations that have outgrown the current facility and those units that will be relocated during work on facility's foundation. The space is on Eisenhower Avenue, near the public safety center, and carries an annual lease cost of \$1.1 million. (In addition to these costs, one-time capital costs of \$3.5 million, to build out the space, are included in the CIP.)

Supplemental requests and continuation of important programs. The approved budget continues funding for a number of important operational, regulatory and service improvements that Council has initiated over the past few years. It also funds a number of supplemental department requests, totaling approximately \$1.7 million, much of which are the consequence of new federal or state mandates or which follow from prior City acquisitions or capital projects (e.g., replacement depreciation of equipment acquired with non-City funds, costs to maintain and

repair newly purchased vehicles, and costs for increased custodial and maintenance services at new or expanded City facilities). Here, the budget provides:

- \$1 million for the Housing Opportunities Fund, bringing the HOF to a total balance of \$2.65 million. This spring funds from the HOF, or from the Housing Trust Fund, were made available to assist in the creation and operation of a new Alexandria-based, non-profit housing development corporation, whose mission is the acquisition, construction and operation of affordable housing in the City, using in part HOF funds.
- \$150,000 in new FY 2004 funding to enable the City to comply with federal storm water management regulations which become effective this July.
- \$120,000 in new FY 2004 funding to enable the Department of Transportation & Environmental Services to develop an in-house traffic modeling capability, in order to reduced our reliance on outside contractors.
- \$ 650,000 per year in continued funding for traffic calming and other measures designed to protect residential neighborhoods from cut-through traffic, including \$50,000 to conduct the Central Alexandria (Janney's Lane) Traffic Calming Demonstration Project.
- \$474,000 in continued funding for salaries and professional services to enable the Department of Planning & Zoning to continue implementation of the Plan for Planning. Planning activities scheduled for FY 2004 include Mt. Vernon Avenue, Eisenhower West, the waterfront and the Hunting Tower/Hunting Terrace area. City Council approved a \$75,000 designation in Contingent Reserves for additional consultant studies during the add-delete process of the FY 2004 budget.
- \$100,000 in new FY 2004 funding, and continuation of the \$354,000 in funds added in FY 2002, for increased upkeep and maintenance of parks, fields, medians, areas along the waterfront, and City entrances, including \$50,000 for improvements of the streetscape along King Street.
- \$10,000 for the street trash can match program.
- \$311,000 in new funding in FY 2004 for three additional social workers, expanded psychological services and other improvements to the delivery of child welfare services in the Department of Human Services, together with \$535,000 in continued funding for staff and staff training to continue the department's child welfare reforms.
- \$124,500 for the Community Partnership Fund, split between the Community Partnership Fund (\$102,090) and the Youth Fund (\$22,410) was approved by City Council during the add-delete process.

- \$1.8 million in City support (along with \$6.4 million in State and federal funding) for child day care, provided to preschoolers by home providers and child care centers, and to elementary age children by the Campagna Center. In addition, City Council designated \$0.2 million in Contingent Reserves for the Campagna Center Kids before and after school program.
- \$200,000 in City Council-added funding to increase the earned income of family daycare home providers.
- \$240,000 in continued funding for Arlandria Neighborhood Health Services, Inc., including new funding in FY 2004 of \$20,000.
- \$118,000 in continued funding for the teen pregnancy prevention program, including \$18,000 in new FY 2004 funding to move the coordinator's position from part- to full-time.
- \$425,000 in continued funding for the purchase of vocational, day support and residential services for adult consumers (including recent and pending high school graduates) with mental retardation.
- \$20,000 in additional funding for the Meals on Wheels Program.
- \$42,000 in new FY 2004 funding for additional staff to operate the expanded Durant Center after its re-opening in mid-FY 2004.
- \$29,900 in new FY 2004 funding for weather gear for deputy sheriffs assigned to provide security at the perimeter of the Public Safety Center, as well as at other areas of the City.
- \$15,500 to increase the collection at the Burke Library.
- \$95,000 in new FY 2004 funding for the Finance Department to apply a host of new state-imposed "car tax" administrative requirements, and to assist in the management of the City retirement programs.
- \$325,000 in new funding for the upkeep, repair and maintenance of the King Street facility that, starting in mid-to late FY 2004, will house the Health Department and Clubhouse program, and for the servicing of approximately 34 vehicles that were added to the City's fleet in FY 2002 and FY 2003.

The operating budget strikes an appropriate balance among many competing factors and interests by: (i) providing \$13.1 million in real estate tax relief to City property owners; (ii) funding in full the School Board's requested operating budget in recognition of the significant progress that the Schools have made in the area of accreditation and of the importance of accreditation to the entire Alexandria community; (iii) limiting the growth in City expenditures to modest increases

in employee compensation and in areas of high priority need; (iv) providing a substantial contribution to cash capital to assist in funding the expanded CIP; and (v) relying on a reasonable appropriation from Fund Balance.

Approved FY 2004-FY 2009 Capital Improvement Program

The approved FY 2004-FY 2009 CIP totals \$558.1 million. Federal, State and other non-City sources fund \$167.3 million of this total. The City is responsible for the remaining \$390.8 million, \$50.7 million of which has been funded in prior fiscal years. Thus, the net City share of the approved CIP is \$340.1 million, which is \$156.3 million, or 85%, larger than the net City share of the current CIP.

The approved CIP of \$340.1 million fully funds the \$130.5 million capital improvement program submitted by the Schools. This represents a 50.5% increase over the Schools' share of the current CIP. The approved CIP funds a total of \$209.6 million in City projects.

The very substantial increase in the approved CIP is largely attributable to a few major capital projects. Ideally, of course, truly major capital projects are scheduled over one or two decades to avoid their costs all occurring at approximately the same time. Unfortunately, at this time, a few large City and Schools projects need to be undertaken, and their sizable costs incurred, at roughly the same time. While this will help City finances in later years, when the projects will not have to be undertaken, it poses a serious financial challenge in the short term when these substantial projects will take place at about the same time.

The substantial CIP increase is mainly attributable to the following six major projects:

- T.C. Williams. The approved CIP adds \$45.3 million to the T.C. Williams High School project, which is in the current CIP at \$29.2 million, bringing the total project cost to \$74.5 million. This increase in project costs arises from revised estimates submitted by the Schools, which are based on design, engineering and other information developed over the past year.
- Police Department replacement facility. As discussed at last fall's Council retreat, the police facility on Mill Road can no longer adequately handle the current space needs of the department, let alone the needs projected for the future. Construction of the required additional space either adjacent to or on top of the current facility is not feasible. As a result, the construction of a new facility for the Police Department, at an estimated cost of \$65.5 million (including land acquisition) has been included in this approved CIP. Construction of the new facility is scheduled to begin in 2008, and to be completed in 2010.
- Recreation centers. Also discussed at last fall's retreat, as part of the Recreation needs assessment, was the need to renovate two recreation centers, Charles Houston and Patrick Henry. These centers were constructed in 1976 and 1973, respectively, have not been renovated since their construction, and are the two

remaining centers that have not received relatively extensive refurbishment work since their construction. The design and renovation of these centers is estimated at \$7.8 million, and is scheduled in the FY 2004-FY 2006 time frame.

- Chinquapin Recreation Center. Considerable discussion has occurred over the past nine months about the joint City-Schools use of the Chinquapin Recreation Center and the new T.C. Williams High School. Though many decisions remain to be made, this joint use concept appears feasible and desirable. Moreover, the Recreation needs assessment addresses the need for a City-wide community center that can be utilized by all residents. To maximize the value of a “Chinquapin-T.C. Williams joint use” and to enhance the Chinquapin Center’s ability to serve all residents, the renovation and expansion of Chinquapin has been approved in this CIP. This project is estimated at \$20 million, and is scheduled tentatively for FY 2007. Although this project is included in the approved CIP, considerable public input and discussion is required before any decision on the project can be made.
- Sanitary sewers. An additional \$12.7 million is added to the CIP for repairs to the City’s existing sanitary sewer system, to bring the total for this project to \$24.2 million. \$12.5 million of this \$24.2 million is for infiltration/inflow projects.³
- T&ES/Recreation maintenance facility. The CIP contains \$1.8 million for the renovation of this facility on South Quaker Lane. It houses many of the maintenance functions of both T&ES and Recreation, and is in need of substantial repair and renovation. The building was constructed in 1961, for other uses, and has not been significantly upgraded since then.

Open Space. In the context of the FY 2004 budget process, City Council approved the establishment of the City of Alexandria Open Space Trust Fund Account within the Capital Projects Account to finance permanent open space public improvements included in the City’s capital budget. This Trust Fund Account is to be funded from \$0.01 of the current tax rate of \$1.035 which is levied on each \$100 of the assessed value of all real property in the City. To reflect this projected annual \$0.01 in tax revenue, a total of \$13.9 million over six years (FY 2004 - FY 2009) has been budgeted for the acquisition of open space.

³ In FY 2004, an increase to the sewer fee now charged to all water users in the City as part of their water bill has been approved by City Council. The increase of \$0.20 in the sanitary sewer rate will cover new sanitary sewer debt included in the approved FY 2004 operating budget, as well as to cover additional cash capital for sanitary sewers as contained in the approved CIP. The fees are now set at \$0.40 per 1,000 gallons of water used. It is anticipated that the fee increase will produce an additional \$1.1 million in revenue each year (about \$14 per household), and that this revenue could be used to maintain and repair the City’s sanitary sewer system. This increase is part of a multi-year rate increase plan to make the City’s sanitary sewer capital and operating costs fully fee-supported, as is the norm in all major jurisdictions in our region.

The challenge posed by this substantially increased CIP has been the development of a funding plan that ensures compliance with the City's longstanding financial ratios. This has been done, as we will discuss during the budget work sessions, utilizing a combination of new borrowing (\$212.1 over the six-year CIP), increased contributions of cash capital, creation of a new user fee funding stream to finance sanitary sewer capital costs, and some use of Fund Balance designated for capital projects. Under the approved funding plan, the City will remain consistent with debt ratio targets and limitations established in Council's Debt Related Financial Policies.

The City's Capital Improvement Program is critical to the well being of the City because it is critical to the City's health, stability and desirability -- as a place to live, to raise a family, to locate a business, to work and to visit. It is also critical that the Capital Improvement Program look well into the future and address infrastructure, facility and other capital matters before they become a problem and before they adversely impact the City's health, stability and desirability. I believe that the approved FY 2004-FY 2009 CIP does just this, and will help maintain Alexandria as one of the finest communities in the country in which to live or work.

Budget Documents

To obtain particular details on the approved FY 2004 Operating Budget and the approved FY 2004-FY 2009 CIP, citizens can obtain a copy of either or both of these budget documents. These documents are available online at the City's web site, www.ci.alexandria.va.us, along with a form for submitting budget comments or suggestions. These budget documents can also be obtained on CD-ROM from the City's Office of Management and Budget (703/838-4780).

Appreciation

Preparation of this year's budget has been particularly difficult. I want to thank the staff from all of our departments and agencies, who have spent literally thousands of hours in the preparation of the operating and capital budgets for FY 2004. Without exception, every department and agency worked very hard to bring their budgets within guidelines to the degree genuinely feasible. Also, as in the past, we have enjoyed a solid and productive working relationship with the Superintendent of Schools, Rebecca Perry, and her staff.

Special thanks go to the Office of Management and Budget, its acting deputy director, Carol Moore, and of course Assistant City Manager Mark Jinks, for their tremendous effort in producing the FY 2004 budgets. Their critical analytical work, thoughtful commentary, sound advice and guidance, and extraordinarily hard work makes our budget staff among the best in the country.

Final FY 2004 Add/Delete List

The final Add/Delete List is the summary of the adjustments made by City Council on April 29, 2003, to the Proposed Budget. The FY 2004 budget, as amended by the Council adjustments, is the Approved Budget for the fiscal year beginning July 1, 2003, through June 30, 2004.

A. General Fund operating expenditures as proposed by City Manager \$398,623,187

Net additions (reductions) to the Proposed FY 2004 Budget

Additions and transfers to department and agency budgets:

- Approved a 2.0 percent cost of living adjustment (COLA) for all City employees. Monies (\$3.87 million) were included in the proposed budget to fund a 2.25% COLA. The reduction in the COLA to 2.0% resulted in a savings of \$0.43 million in City expenditures and a reduction of \$0.27 million in the appropriation to the School system.

(\$700,000)

- 2. Approved merit-in-step increases for all eligible City employees. Monies (\$3 million estimate) were included in the FY 2004 proposed budget.

No new net fiscal impact

- 3. Approved an increase (\$1.0 million) in the employer share of healthcare benefits for active and retired City employees. Monies were included in the FY 2004 proposed budget.

No new net fiscal impact

- 4. Approved an annual increase in funding for the City's Supplemental Retirement Plan for general employees to begin to address a significant unfunded liability. \$0.5 million was included in the proposed budget for this initiative.

No new net fiscal impact

- 5. Approved an increase in the employer share of life insurance benefits to help offset anticipated rate increases. Monies (\$0.2 million) were included in the proposed budget.

No new net fiscal impact

- 6. Confirmed the incorporation of savings in the multi-year replacement cycle for desktop personal computers City-wide. The savings (\$0.3 million) were recognized in the FY 2004 proposed budget.

No new net fiscal impact

- 7. Approved a designation (\$245,000) within Contingent Reserves for the Campagna Center Kids before and after school program. These funds were allocated at the end of June 2003.

No new net fiscal impact

- 8. Approved a designation (\$75,000) within Contingent Reserves for additional consultant studies for the Department of Planning and Zoning. Funds will be held in Contingent Reserves pending further Council action.

No new net fiscal impact

- 9. Approved additional funding (\$50,000) to conduct the Central Alexandria Traffic Calming Demonstration Project at the intersection of Seminary Road, and Quaker and Janneys Lanes.

\$50,000

- 10. Approved additional funding for the Community Partnership Fund, which will be split proportionately between the Community Partnership Fund (\$102,090) and the Youth Fund (\$22,410).

\$124,500

- 11. Approved additional funding for the new street trash can match program.

\$10,000

- 12. Approved additional funding to increase the earned income of family day care home providers.

\$200,000

- 13. Approved additional funding for the Meals on Wheels Program.

\$20,000

14. Approved additional funding to increase the collection at the Burke Library.	\$15,500	
15. Approved a reduction in the cash capital contribution to the Capital Projects Fund as a result of the increased sanitary sewer fee.	(\$500,000)	
16. Approved a reduction (\$600,000) in the City subsidy to WMATA operating expenditures.	(\$600,000)	
17. Approved a reduction (\$900,000) in the appropriation to the Alexandria City Public Schools, which will be substantially offset by an additional \$670,000 in State Aid, resulting in a net decrease in the ACPS budget of \$230,000.	(\$900,000)	
18. Approved a reduction (\$1.5 million) in the City government's General Fund Operating and Capital Improvement Program budgets, to be allocated by the City Manager.	(\$1,500,000)	
19. Approved an increase in the proposed real estate tax rate over the initial \$1.025 by \$0.01 and dedicated the funds for open space acquisition (See #7 in section B).	\$1,952,000	
20. Approved the increase to cash capital from one cent designated from the June 2003 real estate tax payments to fund the acquisition of open space through the FY 2004 - 2009 Capital Improvement Program.	\$953,000	
Total net fiscal impact of additions, reductions and transfers to department and agency budgets		(\$875,000)
General Fund operating expenditures as approved by City Council ¹		<u>\$397,748,187</u>

B. General Fund revenues and other sources as proposed by the City Manager

FY 2003 Proposed General Fund revenues	\$392,039,586	
Proposed appropriation from General Fund undesignated fund balance	\$6,000,000	
Proposed appropriation from Recycling Fund Balance	<u>583,601</u>	
		\$398,623,187

1. Increased the FY 2004 revenue estimate for General Fund Real Estate Tax Revenue to reflect revised projections based on receipts through March 31, 2003. \$1,000,000
2. Increased the FY 2004 revenue estimate for General Fund Business License Tax Revenue to reflect revised projections based on receipts through March 31, 2003. \$800,000
3. Increased the FY 2004 revenue estimate of sanitary sewer fee revenues in order to cover sanitary sewer debt service budgeted for FY 2004 in the General Fund budget. \$600,000
4. Increased the FY 2004 revenue estimate for General Fund Recordation Tax Revenue to reflect revised projections based on receipts through March 31, 2003. \$400,000

¹ Within the General Fund Contingent Reserves of \$925,000, the following designation were made by City Council:

- \$245,000 for the Campagna Center Campagna Kids before and after school program, which was appropriated by City Council on June 24, 2003; and
- \$75,000 for additional consultant studies for the Department of Planning and Zoning.

Consistent with City policy, monies budgeted in the Contingent Reserves account can only be expended after specific action by City Council.

5.	Decreased the FY 2004 revenue estimate for General Fund Revenue from the Use of Money and Property (i.e. interest rate earnings on investments) to reflect revised projections based on receipts through March 31, 2003.	(\$1,200,000)
6.	Decreased the FY 2004 revenue estimate for the General Fund Meals Sales Tax Revenue to reflect revised projections based on receipts through March 31, 2003.	(\$300,000)
7.	Decreased the FY 2004 revenue estimate for General Fund Real Estate Tax Revenue to reflect a reduction in the tax rate of \$0.025 for general purposes and subsequently increased the tax rate by one cent, dedicating the funds generated from one cent (\$1,952,000 in FY 2004) for open space acquisition. These two actions result in a real estate tax rate of \$1.035, or \$0.045 less than the 2002 real estate tax rate.	(\$2,928,000)
8.	Decreased the FY 2004 revenue estimate for General Fund Real Estate Tax Revenue to reflect an expansion of the elderly and disabled tax relief program.	(\$200,000)
Total revenue adjustments:		(\$1,828,000)
Additions (reductions) to appropriation from fund balance		
1.	Appropriation from Open Space Fund Balance	953,000
Total additions (reductions) from fund balance		\$953,000
Net additions (reductions) in revenues and other sources		(\$875,000)
Total General Fund revenues and other sources as approved by City Council		<u>\$397,748,187</u>
 C. FY 2004 - FY 2009 Capital Improvement Program Expenditures, as proposed by the City Manager		
		\$327,740,715
1.	Increase of \$1,952,000 in FY 2004; \$2,029,000 in FY 2005; \$2,110,000 in FY 2006; \$2,194,000 in FY 2007; \$2,283,000 in FY 2008; \$2,374,000 in FY 2009; and a designation from Fund Balance of \$953,000 in FY 2003	\$13,895,000
2.	Decrease of \$200,000 in the cash capital funding for Open Space in each year of the CIP (FY 2004 - FY 2009)	(\$1,200,000)
3.	Increase of \$50,000 in cash capital funding for the Central Alexandria (Seminary/Quaker/Janney's Lane) Traffic Calming Demonstration Program	\$50,000
4.	Increase of \$200,000 in cash capital funding for the acceleration of the preliminary planning for improvements to the Patrick Henry and Charles Houston Recreation Centers	\$200,000
5.	Decrease of \$500,000 in cash capital funding as a result of changes in the project schedule of the Market Square Renovation	(\$500,000)
6.	Decrease of \$100,000 in cash capital funding of the Information Technology Plan as part of City Council's \$1.5 million General Fund reduction	(\$100,000)
Total additions (reductions) to the Proposed Capital Improvement Plan		<u>\$12,345,000</u>
Capital Improvement Program FY 2004 to FY 2009, as approved by City Council		<u>\$340,085,715</u>